Comments for the Record
United States House of Representatives
Committee on Ways and Means
Legislative Hearing on the Social Security 2100 Act

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By Michael G. Bindner
Center for Fiscal Equity

Chairman Neal and Ranking Member Brady, thank you for the opportunity to submit comments to the committee. Like our FY2013 Budget Submission, we will offer our comments based on small to large ball games, adding no ball as well.

The no ball solution is to believe the authors of Social Security: The Phony Crisis from the Economic Policy Institute. They point out that if we look at the Trustee likely estimates rather than the conservative estimates they are required to submit, there is no need to change the law at all and that the proposal to do so was mostly a sales pitch for personal retirement accounts. This is closer to reality than we need to admit, although it does nothing for the low benefit received by many beneficiaries.

The small ball solution is the incremental approach in the Act. It is what most analysts regard as the easiest to pass. It adjusts benefits, the retirement age, the inflation rate used and tax levels. It is perfectly reasonable and will foreclose the need for more basic reform as part of a larger tax reform package, such as the one we offer, the latest form of which is outlined in Attachment One as part of our Large Ball solution.

The medium ball solution is to increase the minimum wage to $15 per hour – or by the time it is fully implemented (and it should be more quickly than proposed) $20. This will not affect employment for most people, as their individual productivity is almost certainly more per hour than the new wage – only monopsonist profits will decrease. Since these profits are essentially economic rent and therefore, market dysfunction, there is no need to subsidize employers in any way.

To increase benefits, simply consider the higher rates as wage inflation and readjust all prior work experience by this inflation. Combined with some of the tax rate adjustments in the proposed Act, raising the minimum wage will increase future revenues enough to pay for higher benefits. Shortfalls could also be made up by revaluing the Social Security trust fund as well, committing more future income surtaxes and Asset Value Added Taxes (as described in Attachment One).

The large ball solution, which should include the medium ball solution, is to lower the OASI tax ceiling so as to lower benefits without bend points, move Survivors Insurance for non-retirees, Health/Affordable Care Act payroll taxes and Disability Insurance entirely to a Subtraction VAT or Invoice VAT as described in Attachment One. A floor is also added so that EITC payments are no longer necessary. The S-VAT will include much higher Child Tax Credits, to be distributed with pay rather than at the end of the year, and the higher minimum wage will end the need to subsidize low wage employers at the public trough.

The S-VAT is used if personal accounts are included – not to shift Social Security funds to prop up Wall Street but to foster employee-ownership with its significant benefits in both productivity and control over the workplace, as well as cooperative consumption. The I-VAT will fund current retirees, making such taxes border adjustable, while the S-VAT funds the new accounts, if this option is taken by workers and employers (who in time will be the same) or will continue to fund normal benefits.

The issues having to do with the benefits of employee ownership and the funding of personal accounts are described in detail from prior comments in Attachment Two.

For employees who do not possess adequate skills to be productive at the new wage, paid training shall be provided (funded through the S-VAT) through either government or employer programs (the latter as a credit to the tax). Between this training and the higher CTC, both Temporary Assistance to Needy Families and Food Stamps can be abolished. Health benefits would be provided to trainees and employees through the S-VAT as well through the health plan of the provider, which may be Medicare for All or a Single-Payer Catastrophic Plan with an additional Public Option.

The most important points are that, rather than raising income caps on payroll taxes, all value added for an employer is taxed, both labor and profit and, because there is no way to separate out individual income contributions to the tax, each employee will be credited the same amount – which allows for higher benefits without bend points. Such taxes also have no ceilings, so the S-VAT rate can be lower than both current law and the proposed legislation.

Finally, a word on the Section 204, the Social Security Trust Fund. This is simply window dressing. The reality is that any trust fund balances must still be loaned to the Treasury and reimbursed with general income tax revenues or additional borrowing (which, given our current debt crisis would not be advisable, see Appendix Three).

In our first submission to Congress in May of 2010, we addressed Trust Fund reimbursement issues. They are particularly applicable given the proposed funding increases in the subject legislation (which, if passed, would continue to have workers subsidize lower income tax rates for the few). They remain especially true today.

When Social Security was saved in the early 1980s, payroll taxes were increased to build up a Trust Fund for the retirement of the Baby Boom generation. The building of this allowed the government to use these revenues to finance current operations, allowing the President and his allies in Congress to honor their commitment to preserving the last increment of his signature tax cut.

This trust fund is now coming due, so it is entirely appropriate to rely on increased income tax revenue to redeem them. It would be entirely inappropriate to renege on these promises by further extending the retirement age, cutting promised Medicare benefits or by enacting an across the board increase to the OASI payroll tax as a way to subsidize current spending or tax cuts.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Attachment One -Tax Reform, Center for Fiscal Equity, May 22, 2019

For the past eight years, we have had a standard plan with four elements followed by explanatory paragraphs. The following is a different presentation with the same concepts.

Individual payroll taxes. These are optional taxes for Old Age and Survivors Insurance after age 60 (or 62). These will be collection of these taxes occurs if an income sensitive retirement income is deemed necessary for program acceptance. The ceiling should be lowered to reduce benefits paid to wealthier individuals and a floor should be established so that Earned Income Tax Credits are no longer needed. Subsidies for single workers should be abandoned in favor of radically higher minimum wages.

Income Surtaxes. Individual income taxes, which exclude business taxes, above an individual standard deduction of $50,000 per year. It will include initial cash distributions from inheritance (except those from the sale of estate assets, see below). This tax will fund net interest on the debt (which will no longer be rolled over into new borrowing), redemption of the Social Security Trust Fund, strategic, sea and non-continental U.S. military deployments, veterans' health benefits as the result of battlefield injuries, including mental health and addiction and eventual debt reduction.

Asset Value-Added Tax (A-VAT). A replacement for capital gains taxes and the estate tax. It will apply to assets held for a longer period of time, exercised options, inherited assets and the profits from short sales. Tax payments for option exercises and inherited assets will be reset, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed. Free assets to the seller will be counted as such. As with any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax free. These taxes will fund the same spending items as income or S-VAT surtaxes. This tax will end Tax Gap issues owed by high income individuals.

Subtraction Value-Added Tax (S-VAT). These are employer paid Net Business Receipts Taxes that allow multiple rates for higher incomes, rather than collection of income surtaxes. They are also used as a vehicle for tax expenditures including healthcare (if a private coverage option is maintained), veterans' health care for non-battlefield injuries, educational costs borne by employers in lieu of taxes as either contributors, for employee children or for workers (including ESL and remedial skills) and an expanded child tax credit.

The last allows ending state administered subsidy programs and discourages abortions, and as such enactment must be scored as a must pass in voting rankings by pro-life organizations (and feminist organizations as well). An inflation adjustable credit should reflect the cost of raising a child through the completion of junior college or technical training. To assure child subsidies are distributed, S-VAT will not be border adjustable.

The S-VAT is also used for personal accounts in Social Security, provided that these accounts are insured through an insurance fund for all such accounts, that accounts go toward employee-ownership rather than for a subsidy for the investment industry. Both employers and employees must consent to a shift to these accounts, which will occur if corporate democracy in existing ESOPs is given a thorough test. So far it has not.

Regardless, S-VAT funded retirement savings will be credited equally for every worker, which allows for funding both the current program and personal accounts and lessens the need for bend points in benefit calculations. It also has the advantage of drawing on both payroll and profit, making it less regressive.

Invoice Value-Added Tax (I-VAT) Border adjustable taxes will appear on purchase invoices. The rate varies according to what is being financed. If Medicare for All does not contain offsets for employers who fund their own medical personnel or for personal retirement accounts, both of which would otherwise be funded by an S-VAT, then they would be funded by the I-VAT to take advantage of border adjustability. I-VAT also forces everyone, from the working poor to the beneficiaries of inherited wealth, to pay taxes and share in the cost of government. Enactment of both the A-VAT and I-VAT ends the need for capital gains and inheritance taxes (apart from any initial payout). This tax would take care of the low income Tax Gap.

I-VAT will fund domestic discretionary spending, disability and survivors insurance (which will no longer be tied to income and shall be raised to the increased minimum wage rate and adjusted for inflation), and OASI employer contributions if personal accounts are not enacted and non-nuclear, non-deployed military spending, possibly on a regional basis. Regional I-VAT would both require a constitutional amendment to change the requirement that all excises be national and to discourage unnecessary spending, especially when allocated for electoral reasons rather than program needs.

As part of enactment, gross wages will be reduced to take into account the shift to S-VAT and I-VAT, however net income will be increased by the same percentage as the I-VAT. Adoption of S-VAT and I-VAT will replace pass-through and proprietary business and corporate income taxes.

Carbon Value-Added Tax (C-VAT). A Carbon tax with receipt visibility, which allows comparison shopping based on carbon content, even if it means a more expensive item with lower carbon is purchased. C-VAT would also replace fuel taxes. It will fund transportation costs, including mass transit, and research into alternative fuels (including fusion). This tax would not be border adjustable.

Attachment Two – A. Employee-Ownership, March 7, 2019

Employee-ownership is the ultimate protection for worker wages. Our proposal for expanding it involves diverting an every-increasing portion of the employer-contribution to the Old Age and Survivors fund to a combination of employer voting stock and an insurance fund holding the stock of all similar companies. At some point, these companies will be run democratically, including CEO pay, and workers will be safe from predatory management practices. Increasing the number of employee-owned firms also decreases the incentive to lower tax rates and bid up asset markets with the proceeds.

Establishing personal retirement accounts holding index funds for Wall Street to play with will not help. Accounts holding voting and preferred stock in the employer and an insurance fund holding the stocks of all such firms will, in time, reduce inequality and provide local constituencies for infrastructure improvements and the funds to carry them out.

NBRT/SVAT collections, which tax both labor and profit, will be set high enough to fund employee-ownership and payment of current beneficiaries. All employees would be credited with the same monthly contribution, regardless of wage. The employer contribution to Old Age and Survivors Insurance will continue to provide income sensitive payments to current retirees, which will bolster the political acceptance of the entire system.

ESOP loans and distribution of a portion of the Social Security Trust Fund could also speed the adoption of such accounts. Our Income and Inheritance Surtax (where cash from estates and the sale of estate assets are normal income) would fund reimbursements to the Fund.

B. From Hearing on the 2016 Social Security Trustees Report

In the January 2003 issue of *Labor and Corporate Governance*, we proposed that Congress should equalize the employer contribution based on average income rather than personal income. It should also increase or eliminate the cap on contributions. The higher the income cap is raised, the more likely it is that personal retirement accounts are necessary. A major strength of Social Security is its income redistribution function. We suspect that much of the support for personal accounts is to subvert that function – so any proposal for such accounts must move redistribution to account accumulation by equalizing the employer contribution.

We propose directing personal account investments to employer voting stock, rather than an index funds or any fund managed by outside brokers. There are no Index Fund billionaires (except those who operate them). People become rich by owning and controlling their own companies. Additionally, keeping funds in-house is the cheapest option administratively. I suspect it is even cheaper than the Social Security system – which operates at a much lower administrative cost than any defined contribution plan in existence.

If employer voting stock is used, the Subtraction VAT would fund it. If there are no personal accounts, then the employer contribution would be VAT funded.

Safety is, of course, a concern with personal accounts. Rather than diversifying through investment, however, we propose diversifying through insurance. A portion of the employer stock purchased would be traded to an insurance fund holding shares from all such employers. Additionally, any personal retirement accounts shifted from employee payroll taxes or from payroll taxes from non-corporate employers would go to this fund.

The insurance fund will save as a safeguard against bad management. If a third of shares were held by the insurance fund than dissident employees holding 25.1% of the employee-held shares (16.7% of the total) could combine with the insurance fund held shares to fire management if the insurance fund agreed there was cause to do so. Such a fund would make sure no one loses money should their employer fail and would serve as a sword of Damocles' to keep management in line. This is in contrast to the Cato/ PCSSS approach, which would continue the trend of management accountable to no one. The other part of my proposal that does so is representative voting by occupation on corporate boards, with either professional or union personnel providing such representation.

The suggestions made here are much less complicated than the current mix of proposals to change bend points and make OASI more of a needs-based program. If the personal account provisions are adopted, there is no need to address the question of the retirement age. Workers will retire when their dividend income is adequate to meet their retirement income needs, with or even without a separate Social Security program.

No other proposal for personal retirement accounts is appropriate. Personal accounts should not be used to develop a new income stream for investment advisors and stock traders. It should certainly not result in more "trust fund socialism" with management that is accountable to no cause but short-term gain. Such management often ignores the long-term interests of American workers and leaves CEOs both over-paid and unaccountable to anyone but themselves.

If funding comes through a Subtraction VAT, there need not be any income cap on employer contributions, which can be set high enough to fund current retirees and the establishing of personal accounts. Again, these contributions should be credited to employees regardless of their salary level.

Conceivably a firm could reduce their S-VAT liability if they made all former workers and retirees whole with the equity they would have otherwise received if they had started their careers under a reformed system. Using Employee Stock Ownership Programs can further accelerate that transition. This would be welcome if ESOPs became more democratic than they are currently, with open auction for management and executive positions and an expansion of cooperative consumption arrangements to meet the needs of the new owners.

Attachment Three - Debt, The Future is Calling: It Wants a Refund, 2019

In the future we face a crisis, not in entitlements, but in net interest on the debt, both from increased rates and growing principal. This growth will only feasible until either China or the European Union develop tradable debt instruments backed by income taxation, which is the secret to the ability of the United States to be the world's bond issuer. While it is good to run a deficit to balance out tax cuts for the wealthy, both are a sugar high for the economy. At some point we need incentives to pay down the debt.

The national debt is possible because of progressive income taxation. The liability for repayment, therefore, is a function of that tax. The Gross Debt (we have to pay back trust funds too) is $19 Trillion. Income Tax revenue is roughly $1.4 Trillion per year. That means that for every dollar you pay in taxes, you owe $13 in debt (although this will increase). People who pay nothing owe nothing. People who pay tens of thousands of dollars a year owe hundreds of thousands.

The answer is not making the poor pay more or giving them less benefits, either only slows the economy. Rich people must pay more and do it faster. My child is becoming a social worker, although she was going to be an artist. Don't look to her to pay off the debt. Your children and grandchildren and those of your donors are the ones on the hook unless their parents step up and pay more. How's that for incentive.

If that is not enough, let's talk raw numbers. If you look at total debt and the fact that it is 13 times income tax collections, then the wealthy 1% are in hock to the rest of us to the tune of 7 Trillion dollars (yes, with a T). The next 9% owe $6 Trillion, the next 40% owe $5 Trillion, with the bottom half owing slightly less than to top 1409 family taxpaying units.

Strata	Lower Limit in $ Thousands	Effective Tax Rate	Taxes Paid In $Billion	Amount of Debt Owed in $Trillions
Bottom 50%	$0	3.7%	$43.9	$0.57
50% to 75%	$40	15.6%	$158.5	$2.06
75% to 90%	$81	17.8%	$238.0	$3.09
90% to 95%	$140	21.1%	$162.1	$2.11
95% to 99%	$198	23.5%	$301.6	$3.92
Top 1%	$481	26.9%	$538.3	$7.00
Top 1409 Households			$46.9	$0.61

Contact Sheet

Michael Bindner
The Center for Fiscal Equity
14448 Parkvale Road, #6
Rockville, MD 20853
301-871-1395 (landline)
240-810-9268 (mobile)
fiscalequitycenter@yahoo.com

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